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'Profitable Merchandising Solutions'

Convenience store sales continue to grow, up over ten percent to \$69 billion in 1987. Industry pre-tax profits, however, are down from 2.6 percent to 2.2 percent last year. As the industry grows, and increasing competition shrinks margins, proper selection of new products, and promotion of core items becomes critically important.

Cigarettes are a category leader in convenience stores. A typical convenience store sells a pack of cigarettes every six minutes, roughly 1,600 packs per week. On average, cigarette volume accounts for one out of every five sales dollars and provides a remarkable 16 percent of gross profit. Perhaps most importantly, because cigarette packs are easy to handle, gross margins flow directly to the bottom line. Considering the typical per-pack gross margin is 31 percent, cigarettes can be the single most profitable item in your store.

In 1988, 132 brands satisfied 99 percent of all smokers. Today it would take 229 brands to achieve the same level of satisfaction. One of the reasons for this rapid brand expansion is the emergence of the Price Value category. This category is now ten percent of industry sales, and Cambridge is the fastest growing brand in the price value segment. Separate Price Value merchandising of both cartons and



packs provides cost-conscious customers a recognizable price message and easy access to all your value products.

In the last five years, the pack share of cigarette sales has grown over 40 percent. That means convenience stores are positioned for continued cigarette profit growth. Providing breadth and depth of inventory to prevent out-of-stocks is crucial to realizing maximum category performance.

Two components are necessary to guard against out-of-stocks. First, convenience

stores need to carry a wide selection—especially new brands that are purchased on impulse. Second, sufficient inventory is needed on major brands. For example, inventory on Marlboro needs to be sufficient to satisfy one of every four of your smoking customers. Effective pack merchandising also may protect other product categories. In convenience stores, 60 percent of cigarette sales are part of a larger purchase that may include such items as beer, soft drinks or candy.

Philip Morris has a flexible and profitable display program that can generate impulse sales and additional profit for both your Full Margin and Price Value brands. Aggressive merchandising, the kind convenience stores are known for, and high impact promotions can substantially improve your current bottom line.

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